Budget Perspective

Congress / Department of Defense

2012 NDIA Munitions Summit

February 29, 2012

- What We Know
- What I Think We Know
- What I Think
- Questions / Discussion

What We Know

Final FY2012 Budget

	President's Budget	Appropriated	Δ
Base Budget	553.1	531.2	-21.9
Defense	538.3	518.1	-20.2
MILCON / FH	14.8	13.1	-1.7
OCO	117.8	115	-2.8

Major Appropriation Reductions:

MILPERS	-1.0
O&M	-7.7
Procurement	-6.6
R&D	-2.9

Not as bad as it looks!

What We Know

Budget Control Act - Highlights

Debit Limits Increases

1. Presidents signed bill into law on 2 August 2011
2. Current $14.3B ceiling on Federal borrowing is increased between $2.1 and $2.4 Trillion
   a. Sum presumed sufficient to allow Treasury to operate beyond 2012 election and into 2013
3. The increase comes in two steps: $900B immediately and a second increase of $1.2 to $1.5 Trillion later
4. All borrowing increases are offset by spending cuts
   a. No revenue increases

What We Know

Budget Control Act - Highlights

Defense
- $259B FYDP
- $487B 10 yrs

Spending Cuts

1. Round One ($900B)
   a. Statutory caps discretionary appropriations for fiscal years 2012-2021
   b. Savings estimated at $935B
   c. Statutory caps in FY2012 and FY2013 specifically set for security and non-security accounts

What We Know

Budget Control Act - Highlights

Spending Cuts

1. Round Two ($1.2 - $1.5 Trillion)
   a. A new congressional joint committee would recommend specific ways to reduce the deficit by an additional $1.5 Trillion by 2022
   b. Committee required to report by 23 November and the House and Senate would be required to act by 23
   c. Should the joint committee recommendations not produce at least $1.2 trillion savings, a process for automatic spending cuts, ie. sequester, would be triggered to achieve cumulative 10 YR savings of $1.2 trillion
      1) Cuts divided equally between defense and domestic spending

Congress failed to produce a recommendation. Act requires sequestration effective Jan 2013.

DoD cut: approx. additional $500+B over 10 years

What We Know

Congress and Washington

- Dysfunctional
- No Bi-partisanship
- No agreement on role of government
- No agreement on approach to debt limit
- Voter impatience
- Presidential Election politics

Not Much Getting Done!!

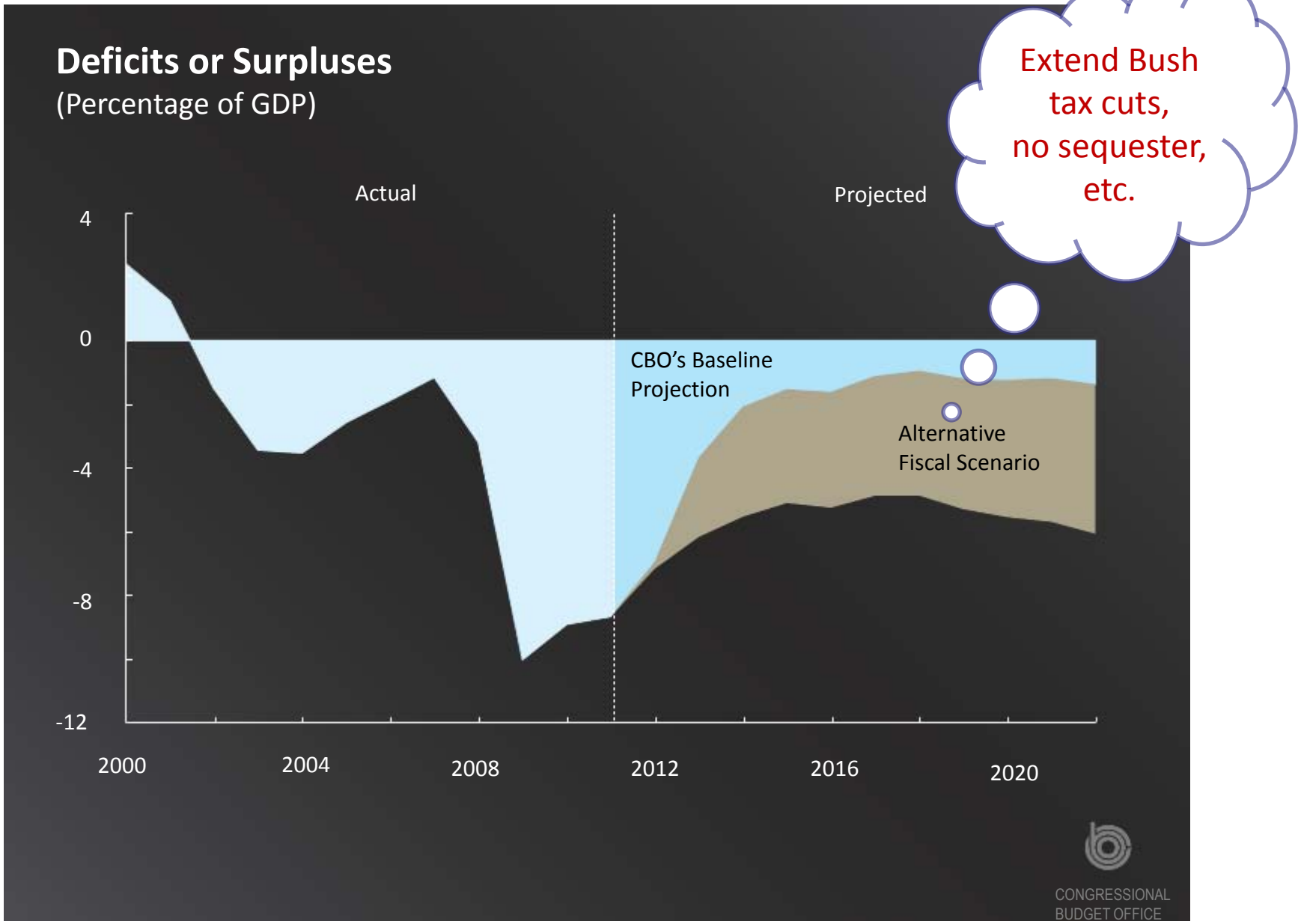
What We Know

Congressional Issues for this Year

- Deficits
- Budget Resolution
- Authorization / Appropriations ???
- Bush Tax Cuts
- Payroll tax extension / Doc fix
- Sequestration

Congressional Calendar Constraints

Must address by: January 2013


Deficits or Surpluses
(Percentage of GDP)
Actual
Projected
4
0
-4
-8
-12
2000
2004
2008
2012
2016
2020
CBO's Baseline Projection
Alternative Fiscal Scenario
Extend Bush tax cuts, no sequester, etc.
CONGRESSIONAL BUDGET OFFICE

FY 2013 Budget

BIG PICTURE

- President's budget if adopted would reduce debt by $4 trillion over 10 years
  - Half of debt reduction from revenues primarily on increased taxes on corporations and the wealthy
  - Deficits reduced from current 8.5% of GDP to 2.8%
- This would negate need for sequester

NOT GOING TO HAPPEN

What We Know

Defense Budget

- FY2013 President's Budget submitted 13 February
- Budget reflects top line reductions mandated by Budget Control Act
- Only Phase I of BCA reflected
  - For DoD decreases of $259B over the FYDP and $487B over 10 years
- Phase II essentially doubles financial impact thru sequestration
- Absent a change in the law, Phase II effective Jan 2013
  - Proposals being debated

Total Service Buy In – Risk and All

FY2013 Budget

Defense Themes

- Rebalance toward Asia-Pacific, Middle East
  - Navy / AF priority
- Confront Aggression
  - Revised approach to traditional "Two War" force – Sizing
- Protect new capabilities and investments
  - SOF, Unmanned Systems, ISR, Cyber
- Resize Forces
  - Army from 570,000 to 490,000
  - USMC from 202,000 to 182,000
- Protect potential for future adjustments
  - Reversibility
  - Industrial Base

Drives Reduced Requirements

FY2013 Budget

Major Programs

- Fund Next Gen Bomber
- Retain 11 Aircraft Carriers / 10 Airwings
- Maintain Big Deck AMPHIPS
- $60B in efficiencies
- Request 2 rounds of BRAC
- Slow JSF procurement
- Retire some Navy cruisers
- Outyear Military pay and healthcare reductions
- Request to review Military retirement systems

FY2013 Defense Budget

Baseline (Dollars in Billions)	FY2012	FY2013
MILPERS	141.8	135.1
O & M	197.2	208.8
Procurement	104.5	98.8
RDT&E	71.4	69.4
Other	15.7	13.3
Total	530.6	525.4

OCO (Dollars in Billions)	FY2012	FY2013
MILPERS	11.3	14.1
O & M	86.8	64.0
Procurement	16.0	9.7
RDT&E	.5	.2
Other	.4	.5
Total	115.0	88.5

FY2013 President's Budget Request
Base Budget

	FY2011	FY2012	FY2013	FY2014 Estimate	FY2015 Estimate	FY2016 Estimate	FY2017 Estimate
Military Personnel	137.8	141.8	135.1	136.3	138.4	141.0	144.0
O & M	194.1	197.2	208.8	209.9	212.8	219.2	224.4
Procurement	102.1	104.5	98.8	104.3	112.3	116.3	122.9
RDT&E	75.3	71.4	69.4	69.8	69.2	66.8	65.8
Military Construction	14.8	11.4	9.6	10.2	11.0	9.4	8.0
Family Housing	1.8	1.7	1.7	1.6	1.5	1.6	1.6
Revolving & Management Funds	2.4	2.6	2.1	1.4	0.8	1.6	0.7
Total	528.3	530.6	525.4	533.6	545.9	555.9	567.3

(Numbers may not add due to rounding)

Ammunition Appropriations – Base + OCO Total

(Dollars in Millions)	FY2011	FY2012	FY2013 Request	FY2014 Estimate	FY2015 Estimate	FY2016 Estimate	FY2017 Estimate
Army	2,431	2,093	2,097	1,737	1,773	1,733	1,838
Navy / Marine Corps	1,474	944	1,045	874	892	1,038	945
Air Force	1,055	608	715	673	772	837	847
Total	4,960	3,645	3,857	3,284	3,437	3,608	3,630

(Numbers may not add due to rounding)

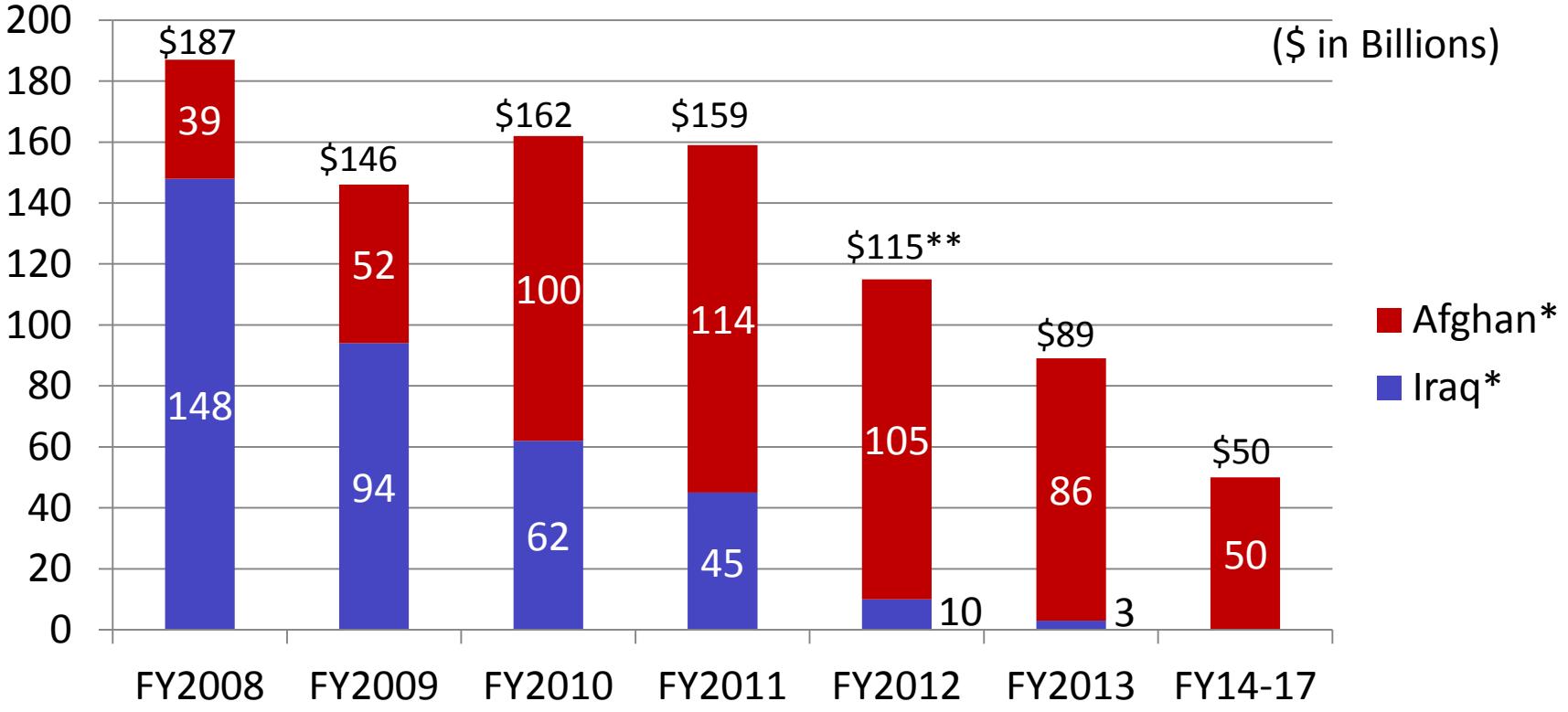
** No OCO reflected in FY2014 and out**

Ammo Appropriations

Changes

($Millions)	FY2013	FY2014	FY2015	FY2016	FY2017
Feb 2011	3288	3703	3668	3937	
Feb 2012	3857	3284	3437	3608	3630

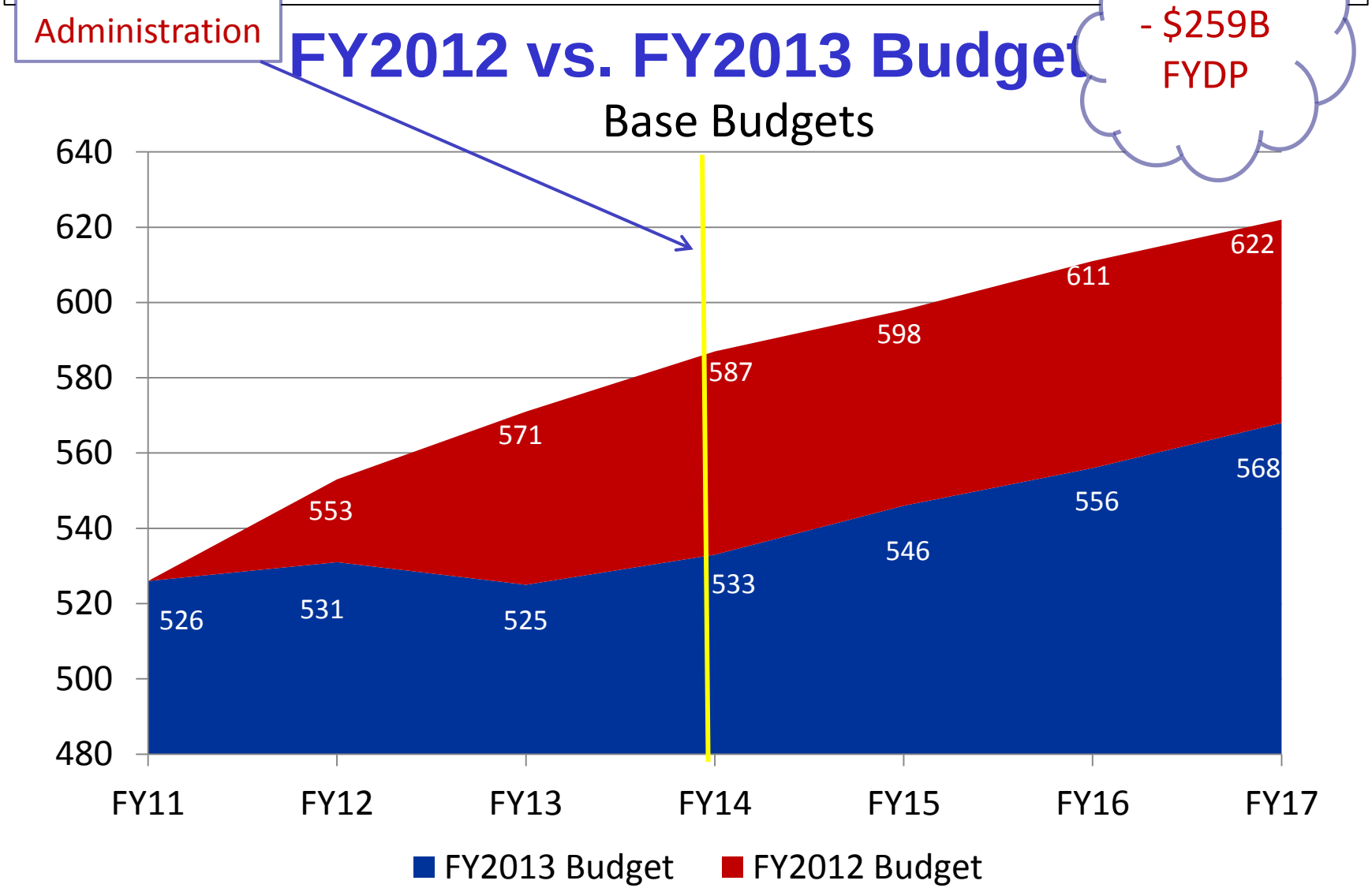
Trends in OCO Funding



*Afghan data is for Operation ENDURING FREEDOM. Iraq data is for Operation IRAQI FREEDOM and Operation NEW DAWN, and Iraq activities.

**FY2012 number ($B) includes $0.6B of rescissions that were applicable to FY2010 OCO appropriations.

President's Budget

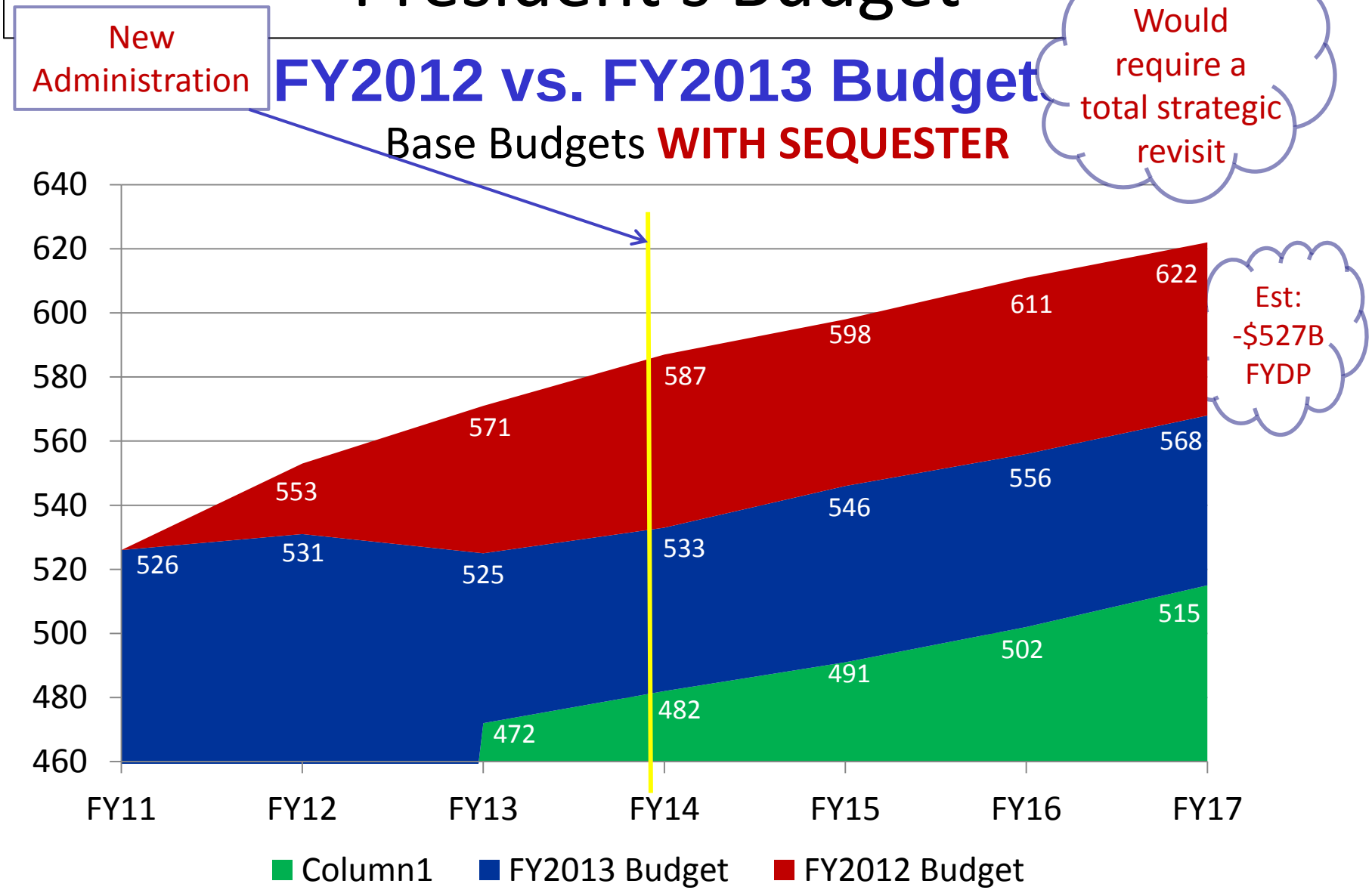


Accommodating Base Budget Limits

By Category (Dollars in Billions)	FY2013	FY13-17
More Disciplined Use of Resources	-10	-61
Force Structure	-9	-53
Modernization	-18	-76
Military Compensation	-2	-29
Other	-6	-40
Total *(Numbers may not add due to rounding)*	-45	-259

By Appropriation (Dollars in Billions)	FY2013	FY13-17
Procurement	-18	-94
RDT&E	-6	-17
Military Construction / Family Housing	-5	-19
Military Personnel	-11	-69
Operation and Maintenance	-6	-60
Total *(Numbers may not add due to rounding)*	-45	-259

President's Budget



What I Think We Know

- BCA isn't going away
- Defense Budget will not get better
  - FY2012 and FY2013 frozen at FY2011 levels
  - Minimal growth beginning FY2014
- Pressure to reduce OCO funding
- Sequestration issue will be punted

What I Think

- November elections will drive the Legislative agenda
- Congress will find some fix to payroll Tax Extension and Medicare doctor rates
- Committees will try to complete action on Defense Appropriations / Authorization before going home to run in October
  - Lame Duck session a given
- No debt deal till after election with January 2013 approaching
  - Sequestration
  - Bush Tax Cuts
- Election impact on Defense
  - Not much

FLOOR ACTION:

Anybody's guess

Questions